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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON REGIONAL OFFICE  
FIFTH FLOOR  
803 WEST BROAD STREET  
FALLS CHURCH, VIRGINIA 22046

SEP 2 1972

Dear Mr. Cardwell:

The General Accounting Office has reviewed the financial management procedures and practices of Gallaudet College. Our review, which was directed principally toward settlement of certifying officers' accounts, included tests of financial transactions and an evaluation of the College's internal controls relating to expenditures of federally appropriated funds. The review was concerned primarily with procedures and practices in effect during fiscal years 1971 and 1972.

We found that the College's controls over expenditures of federally appropriated funds were generally satisfactory. We noted the following matters, however, which we believe warrant your attention.

Financial management weaknesses  
identified by a special study of  
the College's fiscal operations

Under a contract with the College, a comprehensive management study of the College's fiscal operations was made by Price Waterhouse & Co. in late 1970 and early 1971. The study report, issued in March 1971, stated as its major findings that

- the organization for fiscal operations had not developed commensurately with the growth of the College and thus, in many ways, did not satisfy the needs of the College,
- staffing at certain key supervisory and staff levels was generally inadequate because the incumbents were under-qualified for their positions, and
- the existing accounting system generally did not meet the financial reporting needs or, to a lesser extent, the full internal control needs of the College.

The report contained 82 recommendations for effecting major changes in these areas; 70 of the recommendations dealt with the College's accounting and related systems.

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Progress by the College in carrying  
out the study recommendations

The College's management generally agreed that the recommended changes would improve the College's financial management. When the study report was received, however, the College did not establish priorities and milestones for considering and implementing the recommendations. Also, procedures were not established to provide management with periodic written reports to highlight action taken, action postponed, or decisions not to take action.

As a result, the College's management officials did not have reliable information with which to assess progress being made in implementing the recommendations and to ensure that the full potential benefits of the study would be realized.

We suggested to College officials that all study recommendations be reviewed to identify those that had not been fully implemented. Priorities and milestones for implementing the recommendations could then be established. We suggested also that periodic reports be prepared to keep top management informed on the disposition of the recommendations, including explanations for not taking action.

The Business Manager agreed with our suggestions and said they would be put into effect.

We found the College had taken or planned to take action to implement the 12 study recommendations relating to organization and staffing. Also, our analysis of actions taken by the College to implement the 70 recommendations for improving the accounting and related systems showed that, by mid-May 1972, the College had made substantial progress in this area. Fifty-one of these recommendations had been fully implemented. The College planned to implement nine others by about July 1, 1973, six others when its computerized accounting system becomes operational about July 1, 1973, and two others (involving the preparation of manuals for accounting and for the administration of grants) about July 1, 1974, after the computerized accounting system has become fully operational. Of the two remaining recommendations one is still under consideration and the other is considered impracticable.

Need for improved accounting  
control over equipment

One of the nine recommendations to be implemented by July 1973 deals with the need to establish more effective accounting control over the College's equipment.

A listing of equipment, based on a physical inventory taken over a 3-year period between 1967 and 1970 and subsequent equipment acquisitions, showed equipment which cost about \$2.9 million. The College did not use this listing, however, to adjust its general ledger account for equipment--which had a balance of \$1.9 million at June 30, 1971--nor did it make any analysis to determine the causes of differences between the physical count and the accounting records.

Although the study report had included a recommendation that the College take a new physical inventory of equipment and use it to adjust the accounting records, such inventory had not been taken at the time of our review. Following our discussion of this matter with College officials, the College developed plans for taking the inventory. We were informed by the Business Manager that a physical inventory of equipment would be taken and that in the future it would be on a continuing, cyclical basis. He informed us also that after investigation of the causes of differences, the balance shown in the general ledger would be adjusted on the basis of the physical counts.

We believe these actions, if effectively carried out, should improve the administrative control of the College's equipment.

Opportunity to earn  
more interest income

Another recommendation which had not been implemented at the time of our review was directed toward the preparation of monthly statements of cash flow and the preparation of quarterly cash-flow projections to permit maximizing income from temporary investments.

The College invests some of its nonappropriated funds in short-term certificates of deposit, these investments earned about \$16,800 for the College in fiscal year 1971 and about \$14,000 in the first 9 months of fiscal year 1972. The College has additional nonappropriated funds in non-interest-bearing bank accounts. We believe the College could earn additional interest of several thousand dollars annually if it closely analyzed its cash flow and deposited all funds in excess of current requirements in interest-bearing accounts or made additional short-term investments.

College officials have agreed to review and evaluate the potential for earning additional interest income on funds currently deposited in non-interest-bearing accounts.

### Write-offs of travel advances

We noted that a number of travel advances had been written off without any documentary justification. On June 30, 1971, the College wrote off 11 outstanding travel advances totaling about \$1,000. These advances, which were made between March and December 1970, were transferred from the travel advance account to an operating expense account without being supported by travel vouchers or other evidence that travel was performed. The write-offs were made on the assumption that, even though travel vouchers had not been submitted, authorized travel probably had been performed.

We suggested to the Business Manager that these advances be reinstated as outstanding in the College's accounts and that action be taken by the College to recover the amounts of the advances from the persons to whom they were made unless satisfactory evidence is furnished that travel was performed and travel expenses incurred. We were subsequently informed by the Business Manager that the advances had been reestablished awaiting travel vouchers detailing actual expenses.

### Need for increased emphasis on the prompt submission of travel vouchers

In a further test of the controls over travel advances, we examined 20 advances, totaling about \$5,500, which were made during fiscal years 1970 and 1971. Three of these advances, totaling \$1,543, were still outstanding at the time of our review--more than 8 months after the advances were made--because the travelers had not submitted travel vouchers. Three other advances, totaling \$417, were carried as outstanding for 5 months after completion of travel before travel vouchers were received. Another advance, for \$135, was carried as outstanding for a year before a travel voucher was received.

The Business Manager agreed that the delinquent filing of travel vouchers by both faculty and staff has been a problem in the past. He stated, however, that this matter is now being given increased attention by the accounting department and should not be a problem in the future. The College's total outstanding travel advances were reduced from \$14,172 on June 30, 1971, to \$5,166 at April 30, 1972.

### Need for procedures to ensure that appropriate action is taken on internal audit recommendations

The College's internal auditor has made many recommendations to the Business Manager for improving the College's financial management practices. After his evaluation, the Business Manager generally has requested the College departments involved to carry out those recommendations that had his concurrence. In many instances, however, action was not taken on these recommendations.

We discussed this matter with the Business Manager who agreed that internal audit recommendations should be brought under more systematic control. He stated that, in the future, internal audit recommendations will be numbered consecutively, maintained in a separate file, and followed up until written responses are received. We believe these actions, if effectively administered, should provide greater assurance that the College obtains full benefit from the internal auditor's efforts.

Progress toward centralizing  
purchasing and receiving functions

In October 1964 the College's outside auditors reported on a need for the College to centralize its purchasing and receiving functions. The auditors pointed out that the College did not have central purchasing and that, in most instances, each of the College's departments was doing its own buying and receiving. The auditors pointed out also that many vendors' invoices showed no evidence that goods or services billed for had been received by the College.

The auditors noted in their report that the College's Business Manager took corrective action by establishing a central purchasing and receiving office and issuing a manual of purchasing and receiving procedures. We were informed by a College official, however, that the College's efforts to achieve complete centralization of its purchasing and receiving activities in the years following the 1964 audit report had been hampered by a lack of sufficiently qualified personnel in the purchasing department and that, consequently, these efforts had met with only limited success.

At the time of our review, the College still had not completely centralized its purchasing and receiving. We noted that using departments still were doing some of their own buying and receiving.

In the latter part of 1971 the College reorganized its purchasing department under a new purchasing agent. Since that time, the number of purchases made by using departments without consulting the purchasing department has been reduced. For example, a purchasing department analysis showed that only 6 percent of the College's purchases for March 1972 were made by using departments without consulting the purchasing department, compared with 29 percent in January (based on partial figures) and 41 percent in February.

Also, we were told by a College official that increased emphasis on requiring deliveries to be made to a central receiving point has reduced the number of instances in which deliveries are made directly to using departments.

We believe the College should continue its efforts to achieve full centralization of its purchasing and receiving activities to ensure that the best prices for purchased goods and services are obtained, full advantage is taken of opportunities for quantity discounts, positive verification of the receipt of goods and services is made before vendors' invoices are paid, opportunities for employees and suppliers to act in collusion to defraud the College are minimized, and complete and reliable information is provided for the development of potential bidders' lists, historical procurement data, and estimates of future procurement needs.

#### Uneconomical processing of procurement transactions

In our examination of procurement documents we observed that the College did not always consolidate procurement transactions to the fullest extent practicable but processed, as individual transactions, many procurement documents---purchase orders, vendors' invoices, and checks in payment of purchased goods or services---which could have been combined.

For example, on June 28 and 29, 1971, five separate purchase orders for sporting goods were issued to one vendor under a General Services Administration contract. On another occasion, nine separate purchase orders for sporting goods were issued to one vendor under a General Services Administration contract in a single day.

In many instances vendors' invoices were paid as they were received instead of being accumulated and paid with one check at the end of each month. For example, during fiscal year 1971, 61 separate checks were issued to one vendor and 75 to another. We also noted that, in one instance, seven checks were issued to one company on the same day.

We suggested to College officials that, for greater efficiency and economy in processing procurement documents, the College should revise its procedures to ensure that procurement transactions are combined to the maximum extent practicable. The Business Manager indicated this would be done.

#### Incomplete personnel records

In an examination of the personnel records of selected employees, we observed that the College had complete records only for its newer employees---those hired after the personnel office was reorganized in March 1971.

We suggested to the College President that the personnel records for employees, including those who have been employed for many years, should be complete and current to enable the College's management to keep informed of changes in the qualifications of its personnel, provide assurance that employment policies are being followed, and permit independent evaluations of employment practices.

The President agreed that the College's personnel files should be completed and stated this would be done on a gradual basis in conjunction with the processing of personnel actions for these employees.

### Conclusions

We believe the College's efforts during fiscal years 1971 and 1972 to improve its financial management have resulted in correcting many of the weaknesses which existed in the College's internal controls, organization, staffing, procurement activities, and accounting.

Because of the recency of the corrective measures taken, however, and because further improvements are being made or are planned in some financial management areas, the full effect of these actions cannot be objectively assessed at this time. We therefore suggest that the College's efforts to improve its financial management be critically reviewed and evaluated by the Department of Health, Education, and Welfare audit agency in its audit of the College's accounts and procedures which we understand is planned for fiscal year 1973.

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We shall appreciate your comments concerning any action taken or planned by you relative to the matters discussed in this report. In view of the nature of the contents of the report, you may wish to furnish a copy to the President of Gallaudet College.

Sincerely yours,

*H. L. Krieger*

H. L. Krieger  
Regional Manager

The Honorable James B. Cardwell  
Assistant Secretary, Comptroller  
Department of Health, Education,  
and Welfare